Eldorado Gold Corporation
Q2 2020 Results Conference Call
Transcript

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Speakers:

Peter Lekich
Manager, Investor Relations

George Burns
President and Chief Executive Officer

Philip Yee
Executive Vice President and Chief Financial Officer

Joe Dick
Executive Vice President and Chief Operating Officer

Operator:

Welcome to the Eldorado Gold Corporation Second Quarter 2020 Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the conference over to Peter Lekich, Manager, Investor Relations. Please go ahead.

Peter Lekich:

Thank you, Operator, and thank you, ladies and gentlemen, for taking the time to dial in to our conference call today.

On the line today are George Burns, President and CEO; Phil Yee, Executive Vice President and CFO; Joe Dick, Executive Vice President and COO; and Jason Cho, Executive Vice President and Chief Strategy Officer.

Our release yesterday details our 2020 second quarter financial and operating results. This should be read in conjunction with our second quarter financial statements and Management's Discussion and Analysis, both of which are available on our website. They have also been filed on SEDAR and EDGAR.

All dollar figures discussed today are in U.S. dollars, unless otherwise stated.

We will be speaking to the slides that accompany this webcast. You can download a copy of these slides from our website.

Before we begin, I would like to remind you that any projections included in our discussion today are likely to involve risks, which are detailed in our 2019 AIF and in the cautionary note on Slide 1.

I will now turn the call over to George.

George Burns:

Thanks, Peter, and good morning, everyone.

Here's the outline for today's call. I'll give an overview of Q2, along with some comments, then I'll pass it to Phil to go through the financials, Joe will follow by reviewing operational performance, and then we'll open it up for questions.

I'm excited to be reporting an outstanding second quarter, both operationally and financially. We continue to make progress in delivering value for our stakeholders, as demonstrated by our strong quarterly production and maintaining guidance despite COVID-19 operational challenges. The operations performed exceptionally, and I'm proud of the agility of our teams to adapt to our new normal.

I'm especially pleased to report we delivered a significant increase in cash flow this quarter and improved our financial position. We've elected to issue a redemption notice of $58.6 million under the equity clawback provision of our senior secured notes. Repayment of these notes will help lower interest expense and average cost of capital.

Another highlight this quarter includes beginning construction of the decline at Lamaque. As a reminder, this will connect the Triangle underground mine to the Sigma mill via a three-kilometre tunnel. This gives us a number of benefits, including eliminating surface ore haulage, reduced road traffic and lower carbon footprint, enabling lower cost underground exploration for our Ormaque Plug 4 and Parallel deposits, and increase safety by providing a secondary means of egress.

Over to Greece, where we've resumed negotiations with the Greek Government on an updated investment agreement. As we mentioned last quarter, COVID-19 had diverted both our own and the Greek Government's attention; however, we are back now in discussion.

Perhaps a little background may be helpful here. Eldorado's existing agreement is nearly 15 years old and is no longer fit for purpose. It was negotiated back in 2006 by a previous owner, under vastly different economic and technological conditions. A modernized investment agreement with appropriate investor protections will offer significant and environmental benefits to Greece.

Our investment in Greece will not only benefit Eldorado shareholders, but also the Greek state and local communities, through providing jobs and construction and operations, increasing foreign direct investment in Greece, using best available technologies, like dry-stack tailings, and other CSR projects. Greece's prosperity was once built on mining. Mining could again become a key sustainable industry and source of wealth for Greece, while using best available technologies to protect the environment. We remain committed to acting in good faith in discussions with the Greek Government to find a mutually agreeable path forward.

Also, in Greece, we saw movement on drilling permits from Mavres Petres during the quarter, which we see as another positive indicator.

Lastly, we completed the purchase of 5% of Hellas Gold shares that were owned by Ellaktor. Eldorado is now 100% shareholder of Hellas Gold. This gives us full ownership of the Kassandra assets and more flexibility for joint venture partnerships.

Greece continues to represent a fantastic growth opportunity for Eldorado that we believe is not currently reflected in our valuation. Skouries and Perama Hill are world-class assets that will add significant value for investors, local communities and the Greek state.

I'll stop there. Over to you, Phil.

Philip Yee:
Thank you, George. Good morning, everyone.

On Slide 5, we provide an overview of Eldorado's financial results for the second quarter of 2020. As George stated earlier, we are very pleased with our financial results for the quarter. The headline for this quarter is our strong free cash flow generation of $63.4 million in Q2 of 2020, versus $4.8 million in Q2 of 2019, and $7.2 million in Q1 of 2020. This increase is due to increased production, higher sales and higher gold prices.

Eldorado generated $255.9 million in total metal revenue in the quarter. This includes $232.9 million in gold revenue and represents an increase of 55% over the comparative quarter in 2019. The increased revenue resulted from higher gold sales volumes of 134,960 ounces, compared to 113,685 ounces in the second quarter of 2019, and 116,219 ounces in the first quarter of 2020.

The increase was also the result of higher average realized gold price of $1,726 an ounce in the second quarter of 2020, compared to $1,321 per ounce in the comparative quarter in 2019.

The Company reported net earnings to shareholders in the second quarter of $45.6 million, or $0.27 per share. After adjustments, primarily to remove the non-cash revaluation of a derivative related to our debt and the non-cash loss on foreign exchange due to translation of deferred tax balances, adjusted net earnings for the second quarter were $43.8 million, or $0.26 earnings per share. This was a significant improvement over the second quarter of 2019's adjusted net loss of $3.5 million, or $0.02 loss per share, and over the first quarter of 2020's adjusted net earnings of $12.5 million, or $0.08 earnings per share.

Like a lot of our metrics this quarter, the increased net earnings and adjusted net earnings reflect higher gold prices and higher gold sales relative to Q2 of 2019.

EBITDA for the quarter was $131.8 million, and after removing certain non-cash items, Adjusted EBITDA was $135.8 million. This was a material improvement over EBITDA of $74.5 million and Adjusted EBITDA of $66.8 million in the second quarter of 2019.

Depreciation and amortization increased to $58.3 million in the second quarter from $41.2 million in the comparative quarter in 2019, again reflecting higher production and higher sales volumes in Q2 of 2020.

Finance costs were $6.5 million in the second quarter of 2020, compared to $16.8 million for the comparative quarter in 2019. The decrease was due to lower interest and financing costs in Q2 of 2020, and a non-cash gain on the revaluation of the derivative related to our debt.

Income tax expense for Q2 2020 amounted to $23.7 million for the quarter, compared to $8 million in the comparative period of 2019. The significant increase was the result of higher sales volumes in Q2 2020, leading to higher income tax on operations in Turkey and higher provincial mining duties for our Lamaque operation in Quebec.

We finished the quarter with approximately $440 million in cash, cash equivalents and term deposits, and approximately $35 million available under the revolving credit facility. Our liquidity position is very strong, and we have been clear that paying down debt is a priority for the Company.

As George mentioned, we have elected to partially redeem the 9.5% secured notes under the equity clawback provision in the bond indenture. This allows us to use the net cash proceeds from equity raised in the past 120 days to redeem $58.6 million of senior secured notes in late August. These notes carry a 9.5% coupon, so this redemption will lower our interest expense going forward. Under the terms of the indenture, the redemption price of the redeemed notes is 109.5% of the aggregate principal amount, plus accrued and unpaid interest up to the redemption date. These costs will be incurred in Q3 of 2020. It is also worth noting that we expect Q3 2020 free cash flow to be impacted by the premium and interest paid on the redemption, as well as the timing of certain cash tax payments and the timing of capital expenditures.

Moving on to Slide 6, we have provided four graphs that I think really capture the turnaround that we're seeing in our financial performance over the past year. You will recall in April of last year Lamaque commenced commercial operations. In June 2019, we completed the refinancing of the outstanding debt. Earlier this year, we announced the mine life extension at Kışladağ to 15 years, and we have steadily increased production at Olympias over the past few quarters. All of these factors have contributed to the strong performance reflected in these graphs.

Adjusted EBITDA, as shown in the top left graph, has increased quarter-over-quarter in the past year. This is reflective of our operational improvements and supported by a high gold price. In Q2 2020, Eldorado reported $99.6 million in net cash generated from operating activities, $63.4 million in free cash flow and $43.8 million in adjusted net earnings. All three of these metrics reflect significant increases over the previous four quarters and were driven by strong production and a higher realized gold price in Q2 of 2020.

Thank you, everyone, I'll conclude on that positive note and will now turn it over to Joe.

Joe Dick:
Thanks, Phil, and good morning, everyone.

Here's a quick summary of our quarterly operating results.

We produced 137,782 ounces of gold in the quarter at cash operating costs of $550 per ounce sold and all-in sustaining costs of $859 per ounce sold. So, a great quarter and in line with our expectations. Looking forward, we are maintaining our 2020 guidance. As a reminder, this is 520,000 to 550,000 ounces of gold at all-in sustaining costs of $850 to $950 per ounce.

Last quarter, we talked a bit about a reduced workforce due to some workers being considered high risk for COVID-19. We are now back to normal workforce levels, as we found ways for them to work safely. We continue to monitor our safety protocols and find new and innovative ways to keep people healthy, and that's good segue to the next slide.

Here, I want to highlight a contact tracing and tracking system we've implemented at Lamaque, and will be implementing in Greece and Turkey, as well. Contact tracing has become an essential tool to identify and isolate people who may have been exposed to the coronavirus and mitigating potential impacts quickly for the benefit of our people and our business. Our solution builds on existing hardware and software systems at sites using ID cards. At Lamaque, each employee and contractor wears a silicon bracelet, as you can see in the picture, that they use to tap in and out at various entry points in the mill and surface buildings. The card reader records their employee or contractor number, which allows us to identify anyone who may have been exposed to a potential positive case and complete the investigative process within a couple of hours. This solution is cost-effective, easy to implement, protects the privacy, and was quickly deployed at Lamaque. The system is unique, to our knowledge, and we will continue to work closely with public health authorities as we look to improve and build on this innovative approach.

Here on Slide 9, we have some further colour on the quarter at each of our assets.

At Kışladağ, production was 20% higher than Q1, due to increased tonnes of stacked ore at higher grade during the quarter. Solution inventories began to reduce with the drier weather during the latter half of the quarter. We expect these factors to continue to support higher production levels over the remainder of the year. Work is continuing on the installation of the HPGR, with deliveries scheduled for the first half of 2021. We expect this to be online in the second half of 2021, and, as a reminder for everyone, this will improve heap leach recovery.

At Lamaque, gold production met expectations for the quarter, despite a temporary suspension of operations in late March to mid-April to comply with Quebec governmentmandated restrictions to address the COVID-19 pandemic and the process. The big news this quarter was the commencement of decline at Lamaque. As we've mentioned previously, we're currently evaluating an underground crushing and conveying system, as well as a mill expansion. An update outlining the path forward at Lamaque is expected in Q4 of this year, along with our updated reserves.

As we've always said, our long-term goal at Lamaque is to increase production at the Sigma mill to its ultimate nameplate capacity of 5,000 tonnes per day. We will continue to evaluate other deposits in our land package, such as Ormaque, in pursuit of this goal.

Efemçukuru continues to be a consistent performer. The column flotation project remains on schedule for later this year and will result in improved concentrate grade and quality to lower transportation costs and concentrate treatment charges.

Moving over to Greece, at Olympias, I am pleased to report another quarter of improved production. In fact, we saw a 2,700-ounce increase over Q1 2020, and our highest ever quarterly gold production. This is a result of ongoing underground development, improvements to the paste backfill system and greater collaboration among our employees, resulting in improved productivity. This quarter marks the third consecutive period of decreasing all-in sustaining cost at Olympias. Base metal prices remain low and treatment charges high; however, improved efficiencies are leading to lower costs, and we will continue to drive operational improvements at Olympias.

Just a quick note on Skouries. As the asset protection works continue, the picture here shows concrete being placed in June. We had planned to install the mill building and will review that work as we continue to monitor the COVID-19 situation.

With that, I'll turn it over to George for closing remarks.

George Burns:
Thanks, Joe.

Before wrapping up, I want to welcome Judith Mosley to our Board of Directors. Judith will join us effective September 1. Her skills in metals and mining banking sector are complementary to those of our existing Board members, and we look forward to her insights. This timing is consistent with our ongoing Board succession plan.

I also wish to welcome Sam Houston as our VP, Capital Projects and Engineering. Sam joined us in Q1 2020, and is responsible for strategic oversight of our capital projects. Sam has extensive experience in global mega-projects from across diverse sectors, including mining, oil and gas, and infrastructure.

In conclusion, I want to emphasise the turnaround that Phil mentioned earlier. I believe that the groundwork laid throughout 2019 continues to pay off. Kışladağ is back on track, Olympias is showing signs of consistent improvement, Lamaque is firing on all cylinders, and Efemçukuru continues with reliable, steady performance. This is reflected in our strong share price appreciation over the past 12 months.

With our solid operating performance, several potential catalysts in Greece and Quebec, a balance sheet that supports near-term growth, and our energy and our drive to execute, we are well positioned for a period of sustained value creation, and, combined with record gold prices, Eldorado offers a compelling value proposition.

Thank you, everyone. I will now turn it over to the Operator for questions.

Operator:
Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

Our first question comes from Cosmos Chiu of CIBC. Please go ahead.

Cosmos Chiu:
Hi, and thanks, George, Phil and Joe.

First off, congratulations on a very strong Q2. Maybe my first question is on Lamaque. Good to see that you're ramping up well after the Quebec-mandated shutdown. Joe, as you mentioned, the ultimate capacity is 5,000 tonnes per day, potentially. Could you remind us, like, if I look back historically, did the mill ever do 5,000 tonnes per day with the old-timers? And what did they need, like, what would you need to do to that mill to get it up to that nameplate capacity? Because, if I remember correctly, when I was on site, there were some idle leach tanks, and certainly, there was some rock mills that were idle, as well. Would you need to bring those back, and is that what you need to get it up to 5,000 tonnes per day, potentially?

Joe Dick:
Well, I'll answer and then maybe ask George for a little help.

I think the first thing we need is the resource on which to build that, and that is ongoing through exploration, as I mentioned, within the land package, and this decline figures considerably into that. Predominantly, I think, it would be a grind addition, would be number one, and then certainly downstream would be additional retention at those rates.

George, do you have a better flavour for the requirements in the mill at 5,000?

George Burns:
Yes, I mean, the plant did historically do 5,000 tonnes a day, and it was back in the era where there was an open pit to supplement underground ore, and it had a SAG mill in the circuit at that time. Prior operators sold that SAG mill. So, as Joe said, we need additional grinding capacity to push the plant to that level, and that's part of the engineering work that's happening this year and will be completed in the second half.

Then, I think Joe hit the nail on the head, the big issue is really not the plant, it's get the grinding in there and then retrofit more of the tanks, more of the leach tanks. We've guided an estimate of around $50 million to be able to do the upgrades to the plant to get to that 5,000-tonne-a-day level, and we're looking at alternatives to scale it up incrementally, rather than in one push. So, that works ongoing.

Then, in terms of where the feed would come from, that's really the strategic work that continues with Peter and our exploration group. For Triangle itself, we've got a permit now to 2,650 tonnes per day, and we're already executing a ramp-up in development and production from underground. That's going to support ramping the production up from the original maiden reserve and mine plan of 130,000 tonnes a day up to 150,000 tonnes a day over the next couple of years.

Beyond that, as we continue to convert resources to reserves at depth, we'll continue to assess what the ultimate potential is for Triangle itself. Then, in parallel with that, we're continuing to explore on Ormaque. We've got Parallel and Plug 4 all offering opportunities for additional feed to the plant.

If you think about this property package, nearly 10 million ounces produced with two underground mines, one of which is—and Triangle is a lookalike to those two historic mines. So, when you think about, after decades of mining, a new discovery of a lookalike deposit occurred, so we think that potential still exists on the property. We have some very good exploration targets that we're working on, and so that offers the opportunity. We continue to look around our existing property for other opportunities that could be used to ramp up production to that potential 5,000 tonnes a day.

Cosmos Chiu:
Thanks for a very thorough answer here. Then, on that, as you talked about studies coming out in Q4, underground crushing potential, conveyor system potential, along with resources and mill expansion, should we expect—how does Ormaque kind of fit in? Because I think you mentioned that, as well, and that's one of your new targets, that you've targeted high grade, how does that fit in? Could we expect a resource coming out along with that Q4 study? Then, could you remind me, in terms of historically, what was the conversion rate from, say, resources into reserves.

George Burns:
Maybe I'll start with that first. The inferred resource to reserve conversion has been around 80%, 85%, so a pretty good rate. We think that sort of conversion rate will continue as we continue to drill deeper. Then, in terms of Ormaque itself, we're still in sort of trying to define the limits of this new exploration discovery, so it's step-out drilling primarily. I'd say the resource modelling our geologists continue to look at it, it's a bit different than most of the mining that's happened in the district. These are flatter lying veins and they're fairly high grade, relative to the current reserve. I can't give you a clear indication of when we'll have the first resource yet.

In terms of the way this will unfold, hopefully, this year we'll kind of define the overall size off the deposit and begin to do some more detailed drilling to support the modeling efforts, and then the decline really factors into this. Once we get this decline done, we'll be able to do drilling from underground to kind of accelerate our understanding of the deposit and eventually, hopefully, convert it to reserves, so we're optimistic about all that, and maybe one more key thing is. As I mentioned, this is a flatter lying ore body.

Maybe Joe can talk a little bit about the test mining that's underway, that potentially could be deployed in this type of deposit.

Joe Dick:

Yes, thanks, George.

I think we mentioned it before, we do have a Minrail test going on at Lamaque, that we kind of did the investigative work and movement of the equipment to Lamaque late in 2019, and then in 2020, began the setup of it. So, we have installed Minrail, we have driven 50-plus metres using the equipment, and have kind of set it up nicely for a test. It works well in those flatter lying ore veins, roughly in that 20 to 40 degree dip angles. It's a bit like a horizontal, or semi-horizontal Alimak, and with attachments that work off the front for drilling, scraping or slushing-type ore recovery. We'll be providing more information as Q3 goes on and we kind of test the economics of it and what kind of resource we'll need to make it economic.

So far, though, I can say that, from a very favourable point of view, the safety aspects of the Minrail are quite good and keeps us from exposing ourselves to any unsupported ground and that kind of thing. So, we're optimistic, and more information to come as the quarter moves along.

Cosmos Chiu:

Mm-hmm, of course. Now, just to confirm, I guess, George, or maybe Joe, you don't really need a resource on Ormaque to make a decision on this underground crushing, conveyor system or mill expansion, do you?

George Burns:

No, I mean, our studies this year are really based on Triangle, and obviously anything we add to that will be a supplementary benefit.

Cosmos Chiu:

And then one last question, if I may, turning to Kışladağ quickly here. I think in a previous conference call we talked about the fact that—I think stripping at that point in time was a bit slower, and if it continued to be slow into the summer months, it could have longer-term impact in terms of the 15-year sort of the mine plan, or the near term of the 15-year mine plan. I just want to know—you did about $7 million in stripping in Q2—is the mining rate and stripping at Kışladağ where you want it to be to prepare you for that 15-year mine plan.

Joe Dick:
Presently, we're back to very close to budget levels for stripping, and we'll close that gap completely in Q3. As we've looked at the different pit options going forward, we don't see that the short-term stripping deficit in Q2 is going to impact us this year, or in the five-year plan, and for that matter, even life of mine. It's slightly different scheduling, but we see no impacts at this point.

Cosmos Chiu:
Great, that's great to hear. Congrats again on a very good Q2, and have a good long weekend, everyone.

Joe Dick:
Thank you.

George Burns:
Thanks, Cosmos.

Operator:
Our next question comes from Kerry Smith of Haywood Securities. Please go ahead.

Kerry Smith:
Thanks, Operator.

George, great quarter. I think that you guys are definitely moving this company in the right direction, so congratulations. So, just a couple of things. One, the mill upgrades that you're doing in Q4: that will be for the 5,000-tonne-a-day rate, I think, correct?

George Burns:
Yes, it's 5,000, but we're looking at other incremental opportunities. It, potentially, is a staged approach as we continue to expand reserves and find additional feed for the plant.

Kerry Smith:

Right, okay, got you. Then, the second question, on the Perama Hill study that you're working on, that you talk about releasing, is that timing in Q4, as well?

George Burns:

Yes, it's also tracking for the fourth quarter.

Kerry Smith:

What are you doing there, just updating the old engineering, or are you updating the mine plan, or it's just really trying to wrap some new economics around that project?

George Burns:

There's a bit of a redesign happening, so the pit looks to be a bit bigger. We've kind of re-optimized the location of plant infrastructure. So, I'd say some modest improvements and basically updating it for current environmental standards, being prepared, then, to submit the revised EIA.

Kerry Smith:

Okay, got you, and then maybe just the last question, if I could. What is your current thinking on TZ? Are you thinking to maybe update the economics that you did in the feasibility? Obviously, the economics would look significantly better today versus the economics that you had back when you did that study.

George Burns:

I mean, the study's pretty fresh. Really, it is higher metal prices and FX rate changes that impact valuation, and obviously those are numbers we have and articulating with prospective acquirers.

Kerry Smith:

Okay, and are you still thinking to try and sell that property, and is that still your plan?

George Burns:

Well, the way I'd characterize it is both our remaining and Brazilian assets are viewed to be non-core and if we found a reasonable offer that's in line with strengthening our balance sheet and supportive of our focus on growth elsewhere.

Kerry Smith:

Okay, I got it. That's great, thanks very much, and congratulations again.

George Burns:

Thanks, Kerry.

Operator:

Our next question comes from Tanya Jakusconek of Scotiabank. Please go ahead.

Tanya Jakusconek:

Hi. Good morning, gentlemen. Can you hear me?

George Burns:

We can. Good morning.

Tanya Jakusconek:

Okay, perfect. Good morning. I have three questions. I guess two I can give to Phil, and then last one for you, George.

Phil, maybe can we start—I know that we have reconfirmed the guidance for production, all-in sustaining cost and cash cost. Can we talk about the capital? You did mention that capital is going to be higher in Q3. Can you maybe kind of review what the capital spend is for this year and sort of how it goes into Q3, Q4?

Philip Yee:

Sure, Tanya. I think the capital in Q2 was just slightly lower than what we spent in Q1, and I think in terms of overall, you know, below the rate if you spread it out for the whole year, but I think we're still on schedule for our guidance for the year, which would indicate a higher rate of capital spending in the second half. It all comes down to timing, as well. There's certain projects that, perhaps, have been slightly impacted by, for example, COVID at Lamaque, with the three-week shutdown in March and April, but we continue to move ahead and I think we're confident that our guidance on the capital will remain for this year.

Tanya Jakusconek:

Okay. Can you remind me your capital guidance for this year on sustaining and development?

Philip Yee:

Sorry, I'm just trying to pull up the number here, so one sec here. So, guidance for sustaining CapEx—

Joe Dick:

Phil, I have the number, maybe I can help you out.

Philip Yee:

Sure, thanks, Joe.

Joe Dick:

It's $101 million to $145 million on development capital and $105 million to $125 million on sustaining.

Tanya Jakusconek:

Okay. So I got these correctly, did you say $105 million to $125 million for sustaining capital?

Joe Dick:

Correct.

Tanya Jakusconek:

Then, for development capital, did you say $101 million to $145 million?

Joe Dick:

Correct.

Tanya Jakusconek:

Okay, and then just the key items on the development capital, just remind me? Does that mean Lamaque is in there?

Joe Dick:

Lamaque is in there, Kışladağ and—those are the two primary ones.

Tanya Jakusconek:

Okay. Well, if it hasn't changed from the beginning of the year, we'll check on the press release, just to make sure we're going with that.

And then maybe what I can then lead on to, Phil, is just talk a little bit about your capital allocation, and maybe George wants to jump in. I notice that you used proceeds from your ATM to buy back your senior secured notes. How should we think about all of this free cash flow and other sorts of cash that you're gaining in terms of allocation to the pipeline priority and other sources of… Well, where do you stand on a dividend, maybe, would be another question.

Philip Yee:
Sure. I think, overall, our capital requirements for the year and going forward are averaging about, I think, as Joe mentioned, just around $100 million for sustaining, and our growth capital requirement is limited to pre-stripping at Kışladağ, which is around $260 million over five years, the HPGR project at Kışladağ, which is about $36 million, which is manageable, and then we have the decline project at Lamaque, that was recently announced, that's about $25 million. Most of that will be funded through flow-through financing, so that won't impact our liquidity as much. So, I think a lot of our capital moving forward, Tanya, is quite manageable.

Our focus is still focused on delivering the balance sheet in terms of what makes sense. In terms of the equity clawback on the senior notes, that is our highest cost debt, it has a 9.5% coupon. The opportunity with the provision in the indenture and the proceeds from the ATM allowed us to do that. I think going forward, we still have uncertainty in terms of future potential impacts of COVID, so we want to maintain strong liquidity on our balance sheet in light of that. If commodity prices continue to be high, we will generate significant additional free cash flow and we will assess our use of those funds at that time.

Specifically, on your question on perhaps a dividend, I think we're focused on getting our debt dealt with first, and we also have opportunities internally to grow our portfolio, so that all is taken into consideration. We will continue to look at that as we move forward.

Tanya Jakusconek:
Okay, and should I—

Philip Yee:

The only thing I would—

Tanya Jakusconek:

Sorry, I'd just add, the ATM and how you're using that, we should kind of think about it in that way in terms of helping you with your debt. Is that a good way to think of it?

Philip Yee:

Well, I think the way the equity clawback provision for the indenture has worked is the window is only 120 days leading up to the redemption date. We've managed to raise a sizeable portion of the ATM in Q2 and it fit that 120-day window. So, that's how that fit together.

Tanya Jakusconek:

Okay.

Philip Yee:

It's not like we can just take additional ATM and increase that amount. It is limited to that 120-day window.

Tanya Jakusconek:

Okay.

George Burns:

And it's capped at $105 million, so we can retire a little over a third of the entire original high-yield debt and, obviously, we made one big step in Q2 down that direction.

Tanya Jakusconek:

Okay, and just so that I understand all of your big capital needs—and maybe, George, this comes to you and your conversations that you're having with the Greek Government, but just so that I have the capital correct. I think we had talked lastly that Skouries would require another $700 million to complete, or thereabouts, and I think Perama Hill was in the $200 million or $250 million area, and then it appears Lamaque, we've got the $25 million for the decline which is being done, the $50 million in terms of increasing the throughput to 5,000 tonnes a day, and then we've got the underground crushing and conveyor, etc. Should I look at that in the $100 million to $150 million total, excluding development capital. Is that a fair way of looking at that one?

George Burns:

It is. I mean, the way we look at Lamaque, we're committed to the decline. It brings the benefit advantages we discussed on this call. You've got the $50 million to get to 5,000 tonnes a day. But, to be realistic, it's probably going to be a staged approach to further expansion that'll unfold as we are successful in exploration, so that timing I think is going to be spread out a bit. The underground crusher and conveyor is around another $25 million, and I think we'll have some clear insight by the end of this year when's the right time to make that investment, and that might come sooner rather than later.

Then, the last opportunity is around tailings. We're a company that deploys dry-stack tailings pretty universally, with the exception of Lamaque, and we've been working on permitting and engineering studies on how to bring that asset in line with the rest of our assets, and a big paste backfill plant is the likely scenario, where we'd put much of the tailings underground as backfill. That'll help us as we get deeper with higher quality backfill, and then any excess, potentially, would be put as cemented backfill in the old Sigma pit. Those studies are continuing, and that one's not urgent. We have plenty of capacity in the existing dam, which has been buttressed with an enormous amount of waste rock, but that's probably an opportunity down the road a ways, and it's also in that $50 million range.

So, if you add all that up, it's not going to come as one bullet, it's going to be spread over, say, the next five years, but that's strategically what we're thinking at this point.

Tanya Jakusconek:

So, that comes to about $150 million.

George Burns:

Yes.

Tanya Jakusconek:

All right. So, we've got Skouries about $700 million and then Perama Hill at $200 million, and then this one spread over five years at about $150 million. Would that be fair on capital for these projects?

George Burns:

That's correct, but, again, we're focused on bringing in joint venture partners to fund the Skouries and the Olympias expansion, so that won't need to necessarily come off our balance sheet, and having a strong balance sheet positions us well for those negotiations and making the right strategic decisions for our investors.

Tanya Jakusconek:

Okay, and I think the Olympias expansion was under $50 million; right?

George Burns:

Yes, we're estimating $50 million on that, and that engineering work is ongoing this year, as well, (inaudible 44:25) permitting.

Tanya Jakusconek:

So, maybe then, just if I could, my final question was really about, you know, where are we now? We've come back to the table with the Greek Government. Maybe just a bit of flavour of where we are on these conversations, and what are the focus?

George Burns:

Well, again, I'd say there's good alignment. Obviously, for us, getting these high-quality assets built and generating enormous free cash flow is strategically important to us. I'd say for Greece, given every country around the world is dealing with economic impacts from COVID and there's no end in sight from that being eliminated, I think the opportunity is ripe for the both the government and us to hammer out a mutually beneficial agreement and to get these investments moving. I'd just describe we've got good progress going on the permitting, back at the table, and I think it's a good environment to get it done.

Tanya Jakusconek:

Yes, it' looks like the permitting, you got those additional permits for drilling. How is the investment part of it coming? I know we had talked originally about updating that portion and having an arbitration clause in there, and other aspects that you've talked about on conference calls. How are we proceeding on that route? Is it slower than kind of—

George Burns:

I don't want to get into any details. Obviously, there was a bit of a slowdown during Q2. We were heavily focused on protecting our people and the health of our business, and the Greek state, like every jurisdiction, was focused on ensuring they could control COVID spread as best they could, so we didn't get a lot done in Q2, but all I can tell you is we're back at the table and I think both sides are committed to get this done.

Tanya Jakusconek:
Okay. All right, well, good luck with that, George, and thanks a lot, everyone.

George Burns:
Thank you.

Operator:
Our next question comes from Josh Wolfson of RBC Capital Markets. Please go ahead.

Josh Wolfson:
Thanks. A quick sort of single one for me. I was looking back at the notes from the site tour last year and I guess there were a couple of interim resource updates you were expecting for Lamaque mid-year or later in the year, and obviously there's been success with the exploration front with Ormaque, and then also the impact from drilling just given COVID.

In terms of, I guess, which components of the resource are going to be included in the next resource update—just to clarify, that's one—could you review which vein sets are going to be incorporated and what the timelines for that are?

George Burns:
Sure. So, we're in the middle of updating resource models and moving that through engineering and design, so we're expecting this to be another good year in conversion of inferred resources to reserves, and that work, with our annual planning cycle, we get that done later in the year to support our budgeting process, so that work, we're right in the middle of all that work now, anticipate it to be a solid year, and that'll offer additional reserves to support the expansion scenarios that we're looking at.

Then, in terms of where's our good progress going to be, well, it's the deeper parts of Triangle. For C4 and C5, we've been doing infill drilling, to be able to do conversion, and expect to have a nice bump-up this year to support the studies that are underway. On Ormaque, again, we're still trying to define the size of the resource, so we're not at a state where we have a model that we're confident about, and I don't think that will happen this year, it's likely next year.

Josh Wolfson:

Okay, and then, I guess, C6, C7, some of the deeper sets, C10, is there any chance that we'll see those maybe in inferred category there?

George Burns:

Yes, I mean, our exploration focuses on C6 and C7, so we're drilling as we speak, and yes, we'll see—we'll definitely see an increase in inferred resources in that area.

Josh Wolfson:

Okay, great. Thank you.

George Burns:

Thank you, Josh.

Operator:

This concludes the question-and-answer session. I would like to turn the conference back over to Mr. Burns for any closing remarks.

George Burns:

Well, a big thanks to our entire team, it was a solid quarter. We continue to build on our success form last year and we're optimistic that we have a number of catalysts in front of us, and look forward to updating everybody next call.

Thank you.

Operator:

This concludes today's conference call; you may disconnect your lines. Thank you for participating and have a pleasant day.